

# FISCAL HIGHLIGHTS

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## EXECUTIVE APPROPRIATIONS COMMITTEE

MEETING SUMMARY - JUNE 17, 2008

SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW, CO-CHAIRS

### Report: Fees and Fee Revenue

The Legislative Fiscal Analyst Office reported on Fees and Fee Revenue. It reported that in FY 2007 the state collected \$263 million in fee revenue or 2.5% of the total state budget. The report also recommended further clarification of the requirements to hold public hearings for proposed new fees. It also recommended that all fees be submitted to the Legislature for their review and approval in an appropriations act. The Committee moved to accept all the recommendations of the report.

**Staff Contacts:** Jonathan Ball & Danny Schoenfeld

### Report: Transportation Projects Funded By Bonds

The Department of Transportation reported to the Committee an update on FY 2009 proposed bonding for the Critical Highway Needs Program. The department is required to appear before the Committee and present a list of projects and the amounts of the bond proceeds needed. Representatives from the Department of Transportation also gave an update on the progress of the I-15 rebuild in Utah County.

**Staff Contact:** Mark Bleazard

### Report: Federal Funds Report and Non-Federal Grants Report

Tenielle Young from Governors Office of Planning and Budget and Danny Schoenfeld from the Legislative Fiscal Analyst Office presented the Federal Fund report. There were two reapplications that required Legislative action. There were also two Non-Federal Grants that also required Legislative action.

**Staff Contact:** Danny Schoenfeld

### Report: Public Employees Health Program Preferred Transition Report

Jeff Jensen from the Public Employees Health Program gave a preliminary report on the results from HB 4 State Agency and Higher Education Compensation Amendments. The Department of Human Resource Management certified to PEHP that in fact PEHP Preferred Care terms so that employer cost for all insurance plans are equivalent and that there are no increases in premiums for the other PEHP health care products. PEHP reported that 77% of enrollment received from state employees had switched from PEHP Preferred to the PEHP Summit and Advantage Care plans.

**Staff Contact:** Danny Schoenfeld

### Report: FY 2007 & 2008 Building Block Follow-up Report

In December 2007, the Analyst presented a follow-up report on selected "Building Blocks" (additions to the base budget) from the 2007 General Session. The report focused on results, and included previous year's funding. Many of the

(Continued on page 2)

## UPCOMING MEETINGS

**Executive Appropriations**  
August 19, 2008  
C445 State Capitol

**Public Education, Higher Education**  
**Appropriations Subcommittees**  
**& Education Interim Committee**  
**Joint Meeting**

July 10 & 11, Cedar City, Utah

**Capitol Facilities and Government Op-**  
**erations Appropriations Subcommittee**  
July 26, 2008  
C440 State Capitol



## EXECUTIVE APPROPRIATIONS

~ Continued from Front

building blocks did not yet have sufficient data and so Executive Appropriations Committee asked that the report be given again when there was better information. This is that report, a follow-up of the follow-up report. The full text is available on the legislature's web site under Executive Appropriations Committee or the Legislative Fiscal Analyst.

**Staff Contact:** Stan Eckersley



## COMMERCE AND WORKFORCE SERVICES

Staff Contact: Danny Schoenfeld

### *Subcommittee Interim Report*

The Commerce and Workforce Services Appropriations Subcommittee met on Thursday, June 12 at the Utah State Office of Rehabilitation, Division for the Blind and Visually Impaired. The Department of Commerce reported on their process for establishing new and existing fees.

The Department of Insurance reported on the Utah Comprehensive Insurance Pool. They reported that they have a 14 month reserve that will allow they pay all outstanding claims. The Department of Alcoholic Beverage Control reported that they are opening eight new and remodeled stores in Utah. The DABC is also planning seven new or remodeled stores in the 2009 calendar year. They reported that they are experiencing 12 percent annual growth in sales.

The Department of Workforce Services reported on the newly created Refugee Services Office. During the 2008 General Session the Department of Workforce Services was authorized \$200,000 on-going in General Funds to provide organizations with capacity building. This will also assist refugee communities with the ability to hire, train, and supervise community advocates who will do home visits and help refugees with living skills.



## CAPITOL FACILITIES

Staff Contact: Steve Allred

### *State Building Ownership Authority Debt Service Maturities*

May 15, 2008 was the final maturity date for two outstanding State Building Ownership Authority (SBOA) lease revenue bonds – the 1997A series and the 1998A series. The SBOA originally issued \$4.15 million of lease revenue bonds for the 1997A series and \$25.71 million for the 1998A series. These bonds built a Utah Department of Transportation building, a Department of Administrative Services Surplus Property building, and various Department of Alcoholic Beverage Control (DABC) liquor stores. The bonds also aided in paying off \$13.3 million for a Salt Lake County Youth Corrections building.

In 1979 the Legislature created the State Building Ownership Authority as a body politic and corporate of the State. The Legislature found (UCA 63B-1-302) that it was more economical and efficient to use funds to purchase and acquire buildings rather than to rent space in privately owned buildings. The SBOA therefore received power to issue lease revenue bonds (approved by the Legislature) to finance the acquisition and construction of facilities. The principal and interest for these lease revenue bonds are paid by Agencies as lease payments, appropriated by the Legislature in lieu of rental budgets, to the SBOA.

Paying off the 1998A and 1997A series of SBOA lease revenue bonds reduces the number of outstanding SBOA lease revenue bonds from twelve to ten. As of May 15, 2008 there is approximately \$222.7 million of SBOA principal left outstanding. The Fiscal Year 2009 budget for SBOA lease revenue bond debt service (principal and interest) is approximately \$26 million (a significant decrease from the \$65 million budget for Fiscal Year 2005).

The 2008 Legislature approved authorization (H.B. 5) for \$90 million of additional SBOA lease revenue bonds to build Phase II of the University of Utah Medical Center cancer research hospital. The Legislature further approved \$23.7 million for the construction of five DABC liquor stores (H.B. 5). These bonds have not yet been issued.



## HEALTH AND HUMAN SERVICES

Staff Contact: Russell Frandsen

### ***Drug Offenders Reform Act***

The Utah Substance Abuse and Anti-violence Coordinating Council (USAAVCC) submitted a written report to the Executive Appropriations Committee in June of 2008.

Passage of S.B. 50, "Drug Offenders Reform Act" (DORA) during the 2007 General Session expanded the DORA pilot program to a state-wide ongoing program. DORA requires screening, assessment and substance abuse treatment services for offenders convicted of a felony. The USAAVCC, provides oversight of this program. The provisions of this legislation, requires an annual report be submitted to the Legislature with the recommendations for the implementation of this program. The recommendations outlined in this report included the following provisions:

- A policy on how the appropriated funds are to be used;
- A criteria for treatment plans that are appropriate for felony offenders;
- Guidelines for the membership of the local planning groups; and
- Guidelines for the membership of the Department of Corrections' planning group.

### ***Medicaid 340B Drug Pricing Programs***

As required in HB 74 "Medicaid 340B Drug Pricing Programs" from the 2008 General Session, the Department of Health submitted their report on May 21, 2008 with an updated report on June 12, 2008. The following summary details the three requirements of the report and response from the Health Department:

- *Potential cost savings from 340B program expansion* – no statewide costs savings provided except one example for multiple sclerosis drugs that may reduce costs by \$400,000 Total Funds (\$115,000 General Fund).
- *Medicaid plan changes required for program expansion* – only specific disease 340B drug control programs would require plan changes.
- *Projected implementation of drug programs for specific diseases* – Health projects completing a feasibility study for multiple sclerosis by October 30, 2008.

#### **May 2008**

- **Medicaid Caseloads - 163,800**
- **400 member increase over April 2008**
- **2% increase over May 2007**



## PUBLIC AND HIGHER EDUCATION

Staff Contact: Patrick Lee

### ***UEN Connectivity Upgrades for Elementary, Charter and New Secondary Schools***

The Utah Education Network received funding from the Legislature for FY2009 to upgrade Internet connectivity for elementary, charter and new secondary schools. Appropriators gave ongoing funding for the first year of a three-year project in the amount of \$700,000 and one-time funds of \$500,000.

As of the end of FY2008, approximately half of the 501 elementary schools and 4 of 58 charter schools had high-speed capacity to support initiatives such as online testing. Historically, individual school districts have been responsible for negotiating any contracts that provide upgrades to connectivity for their schools. However, UEN has been able to leverage discounts with the Federal E-rate program as well as contracts with local telecommunications companies that provide a much lower price than districts have been able to obtain.

To this point, UEN has conducted a Request for Proposal to receive bids for the network improvements. When proposals are reviewed and accepted by UEN, upgrades will take place over FY2009 for about 95 elementary schools and 23 charter schools using both state budget and federal E-rate funds approved previously by the Legislature.



## ECONOMIC DEVELOPMENT & REVENUE

Staff Contacts: Thomas Young & Andrea Wilko

### ***Tax Commission Building Blocks***

Two of the building blocks approved by the Legislature during the 2007 General Session include funds for license plate reading equipment and for tax system modernization. The two PIPS license plate reading equipment provides law enforcement officers with additional resources to identify license registration violations and stolen vehicles. The funding for the two PIPS has enabled 210 new citations and eight stolen vehicles to be recovered.

The update on the tax system modernization is as follows: the sales tax system was completed in March 2008. This system is enabling easier flow of the workload, better auditing, and data analysis. With the completion of this, the Commission has now completed the sales tax and individual income tax portions of the tax system modernization, amounting to \$10.5 million.



### ***Utah Sex Offenders: Trends, Recidivism and Treatment***

Recidivism is defined as the rate of return to prison within one year of parole. A major point of discussion regarding recidivism among the prison population is recidivism among sex offenders and the effects of treatment for this particular group. The following paragraphs provide some recent data regarding incarcerated sex offenders, treatment for these individuals, and recidivism rates.

There are currently 1,800 sex offenders who make up approximately 28% of the prison population of 6,500 inmates. They constitute a significant portion of those offenders released on parole. The percentage and number of sex offenders in prison has grown in recent years. In 1995, there were an estimated 800 sex offenders of the 3,600 state inmates, or 22% of all inmates. While the total percentage of the prison population has gone up by only 6%, the actual number of offenders has gone up by more than double the amount of offenders since 1995.

Efforts to manage the recidivism rates among sex offenders differ from those of other types of offenders such as drug offenders. Approximately \$900,000 annually is spent on sex offender treatment. It is estimated that it takes 15 months and costs \$2,850 for an offender to complete treatment. Recidivism rates are lower for treated sex offenders. The recidivism rate for treated offenders is 19%, while those not treated is 42%. Not all sex offenders who enter treatment complete it.

The types and level of treatment provided to sex offenders are significant issues. Among others, treatment has an effect on the rate that offenders re-offend and thus return to prison.



### ***Quagga/Zebra Mussel Management Plan***

The 2008 Legislature appropriated funding (\$1,106,500 for FY 2008 and \$1,400,000 ongoing for FY 2009) and passed legislation (SB 238, Aquatic Invasive Species Interdiction Act – Greiner, J.) to protect Utah's waters from Quagga/Zebra mussels. These mussels are considered an aquatic invasive species that will have serious negative impacts to Utah's aquatic resources, water based recreation, agricultural irrigation systems, culinary and sewage water treatment facilities, and power generation plants. In January 2007 this species was discovered in the Lower Colorado River basin in Lake Meade, Nevada.

The Division of Wildlife Resources (DWR) has been design-

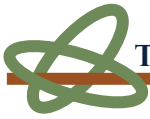
nated as the lead agency in the Department of Natural Resources for the development and implementation of the Quagga/Zebra Mussel Management Plan. According to the Plan, in 2008 DWR will spend \$248,918 on educating the public through media releases, brochures, signs, posters, and direct mail to boat owners. DWR will also hire 44 employees (6 full time and 38 seasonal) to oversee and execute the plan. The new staff will be inspecting and decontaminating boats, taking and analyzing samples from the lakes, and increasing law enforcement effort.

DWR has purchased 26 decontamination stations that are placed across Utah. The cost of each station is \$12,000. Additionally, the funding for the purchase and operation of two decontamination stations at Wahweap and Bullfrog areas of Lake Powell is provided by the National Parks Service.

If you are a boater visiting Utah's lakes and reservoirs this summer, you should be prepared to:

1. Fill out a self-certification form at the entry station of the park or lake about what bodies of water your boat has been in during the last 30 days and whether or not your boat has been decontaminated, displaying the form in your launch vehicle;
2. Possibly subject your boat and equipment to a professional decontamination process if your boat has been in one of the following infested waters in the last 30 days: Lower Colorado River between Lake Mead and the Gulf of California; Lake Mead; Lake Mohave; Lake Havasu; Lake Pabelo; Lake Pleasant; San Justo Reservoir; southern California's inland waters in Orange, Riverside, San Diego, Imperial, or San Bernardino counties; waters east of the Rocky Mountains in North America. The treatment as provided by DWR is free of charge but it can take anywhere from 20 minutes to 2 to 3 hours, depending on the size of the boat. It is more convenient for a boater to perform a do-it-yourself decontamination if they have been on an infested water as follows:
  - Clean off all plants, fish, mussels & mud at a water body you are leaving;
  - Drain all water (bilge, livewells & motor) at a water body you are leaving;
  - Dry at home or a suitable area for 7 days summer (June, July & August), 18 days spring (March, April & May) & fall (September, October & November), or 30 days winter (December, January & February), or freeze your watercraft and equipment for 72 continuous hours before your next boating trip.





## TRANSPORTATION

Staff Contacts: Mark Bleazard

### ***Transportation Project Update***

The Department of Transportation has dozens of highway projects throughout the state they are working on this summer. Those projects involve maintenance, renovation, reconstruction, and new construction. A major focus this year is on Interstate 80 east of I-15 to Kimball Junction in Summit County. The Department of Transportation has dubbed those projects as the “Innovate 80 Project.” To better help the motoring public negotiate the obstacles of those projects the Department has published the following information:

#### I-80 Reconstruction

Where: I-80 between State Street and 1300 East  
When: Through fall 2009  
Impact: Three lanes during peak hours and two lanes during off-peak hours. The 700 East eastbound on-ramp is closed through fall 2008.  
Benefit: Adds one through lane and one auxiliary lane in each direction; replaces bridges and improves traffic flow along the corridor.

#### I-80 Overlay

Where: I-80 from the mouth of Parleys canyon to east of Lambs canyon  
When: Late May through June  
Impact: Three lanes will be maintained during peak hours in peak direction; Two lanes will be maintained during off-peak hours; I-80 will be restricted to one lane with moving closures at night after 8:30 p.m.  
Benefit: Increases safety and improves ride by repairing damaged pavement.

#### I-80 Lambs Canyon/Mountain Dell

Where: I-80 at the Lambs Canyon and Mountain Dell Bridge Structures  
When: Full WB closure Aug. 9, 4 p.m. to Aug. 10, 4 p.m.; Full EB closure Aug. 16, 7 p.m. to Aug. 17, 7 p.m. Intermittent restrictions on roads beneath the bridges will require detour routes.  
Benefit: 24-hour directional closures will allow crews to complete placement of the bridges with fewer traffic delays and maintain safety.



## CAPITOL FACILITIES

Staff Contact: Steve Allred

### ***Developing on State Property***

A couple of ambitious development plans on state property have been publicized recently. First, the University of Utah updated its master plan. The plan calls for a significant amount of construction—up to 40 new buildings in the next 20 years. The University has discussed plans to create an 8-acre mixed-use development in the parking lot west of the football stadium. Second, various parties have expressed interest in constructing a new film studio at the State Fairpark. Seemingly more and more ideas surface as the Fairpark property increases in value.

With a few exceptions, state law precludes a capital development from being constructed on state property without legislative approval. The exceptions are:

- A higher education institution proves it can build, operate and maintain, and improve the project throughout its lifetime without using public monies appropriated by the Legislature. The project must also be consistent with the master plan and not have an adverse impact on the state.
- Renovation, remodeling, or retrofitting of an existing facility with non-state funds.
- A facility built with non-state funds and owned by non-state entities within research parks at the University of Utah or Utah State University.
- A facility built at This is the Place Park with funds raised by its foundation.
- A development on School and Institutional Trust Lands not for a state agency.

In addition, revenue bonds and general obligation bonds for capital projects cannot be issued without approval of the Legislature.

While there is a slim chance the University of Utah may meet some of the exceptions above, it is likely that most, if not all, of its proposed developments will require legislative approval. Regarding the Fairpark, no project will go forward without consent of the Legislature.



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**RETURN SERVICE REQUESTED**



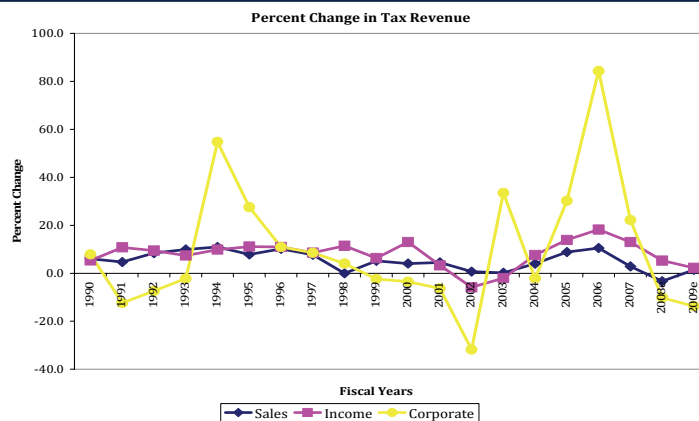
## WHAT'S IN A NAME

Staff Contact: Jonathan Ball

I have three daughters. Every time one of these beauties arrived, I angled with my wife to name the newborn "Crystal". This, of course, would have been for my own amusement. I could then tell my bosses and colleagues that, when estimating revenue, I have a "Crystal Ball".

Luckily for me - not to mention the poor, unwitting child - my wife prevailed in such debates. Because, of course, I have no crystal ball. And at times like these, that fact becomes obvious. The times to which I refer are those when our economists (who I am convinced use tea leaves, not crystal balls) are so close to accurate in their predictions that we cannot tell you where we are on revenue until all of the beans are counted.

The latest Tax Commission form TC-23 through 11 months of FY 2008 shows major revenue collections slightly behind what we predicted for FY 2008. Last month's report showed collections ahead of forecast. As far as our economists are concerned, both are right on target. I know I prefer one option over the other, but I agree that, until we see what happens at the end of the year, it's too close to call.



Tax collections are by their nature volatile. The figure above shows percent change by year for three major tax types. The peaks and valleys represent year-to-year swings in collection. A month-to-month comparison shows even greater variance. In short, we are within range of our estimates for FY 2008, but we need another period of data to know where we'll end-up. We should be able to close FY 2008 without a problem. But final 2008 revenue performance - available before the Legislature's August meeting - will determine our outlook for FY 2009. Have I told you about my Great Aunt Winona Beach? She, of course, married INTO the family - becoming Winona Beach Ball. Maybe I'll save that for next month.

# PART 1: TAX COLLECTIONS

As predicted in February, declining economic activity continues to put downward pressure on state revenues. However, based on current collection rates we expect General Fund/Education Fund revenues to be within +/- \$40 million of February estimates. Most of the downside risk in revenues is in the Education Fund as a result of Corporate Tax volatility.

When all sources are combined the General Fund is currently on target with an expected range of +/- \$10 million. When all sources are combined Education Fund collections are expected to be within a range of +/- \$30 million. The largest risk is in the Corporate Tax. Based on collections to date Transportation Fund revenues appear to be coming in on target for FY 2009.

The national recession began in December 2007 following the onset of problems generated in the financial system and housing price depreciation. The state appears to have followed suit, entering recession territory in March 2008.

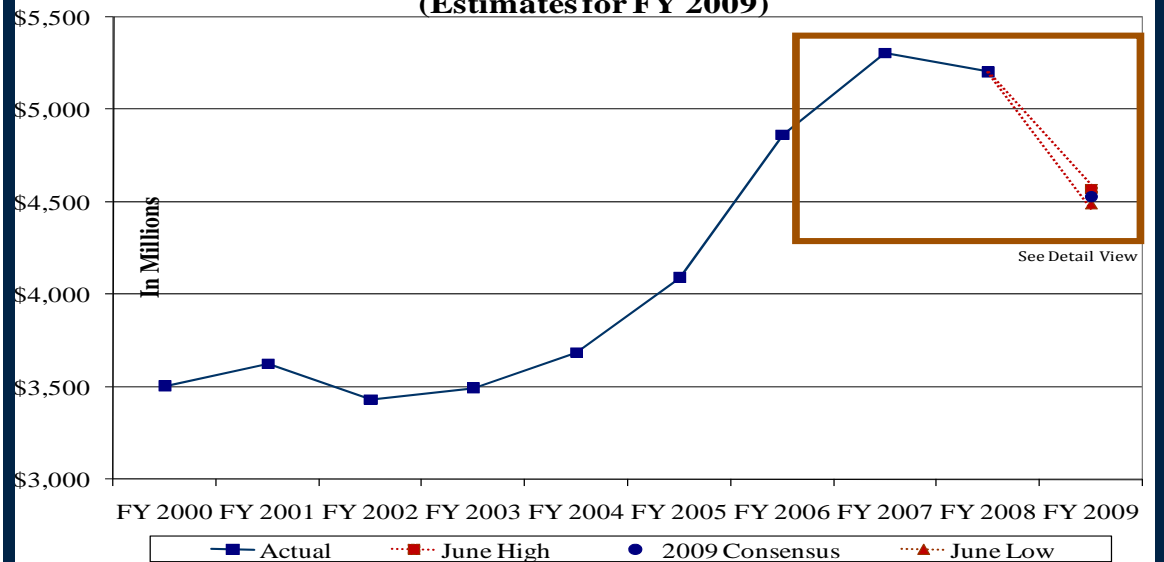
This recent downturn is unique in that the eco-

nomie decline materialized in the labor and financial markets suddenly. Because of the immediacy of the effects and due to the nature of the individuals and industries affected, this recession appears to be set for a longer duration and subsequent slower growth once the downturn is over. We expect the abating recession to lead to below trend growth in the coming fiscal years.

In spite of this, the recession should moderate over the next several months – with some positive indicators being forecast for 2010 (i.e. some growth in retail sales, moderating personal income and slightly higher non-agricultural wages). Going forward, some of the factors above (i.e. carry forward losses) will weigh on individual income and corporate franchise tax revenues.

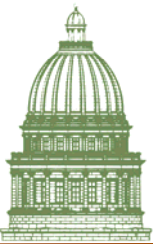
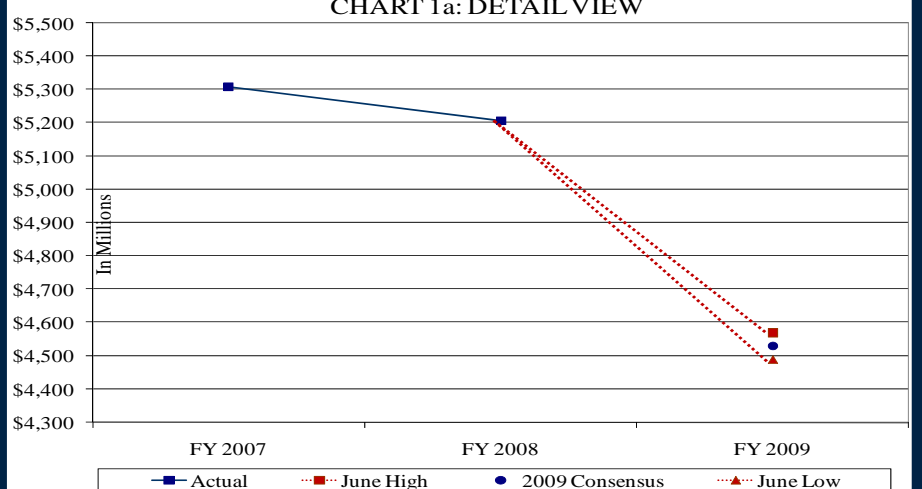
The economy and revenues are not likely to recover this year. However, the lessening recessionary environment should lead to slower deceleration in the coming fiscal year.

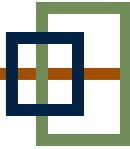
**CHART 1: Combined General and Education Fund Revenue  
(Estimates for FY 2009)**



**Total General & Education Fund revenues are expected to be +/- \$40 million in relation to the February 2009 Consensus revenue target.**

**CHART 1a: DETAIL VIEW**





## GENERAL FUND

**Higher Savings rates continue to depress sales tax collections.**

One of the factors currently weighing on sales and use collections is the higher savings rate of consumers. Consumers, burdened with many years of accumulated debt are being forced to re-trench and save in order to reduce their debt load. As a result Sales and Use tax collections are expected to continue to drop.

For the past several years U.S. consumers have consistently saved less and less and spent more and more of their disposable income. Easy credit combined with appreciating asset values (homes, stocks, etc.) led to spending habits beyond wage resources for many consumers. In fact, by 2005 the personal savings rate as a percentage of disposable income fell below 0.

As the recession hit and credit dried up and asset values plummeted consumers were faced with the reality that they could no longer spend more than they made. As a result there has been a dramatic increase since late 2008 in the personal savings rate. As the consumer is forced to save – pay down their debt - and as a result spend less – sales and use tax collections will be lower.

Conversely, severance taxes are currently coming in above targets. However, collections accruing to the General Fund will remain at target as a result of caps passed in a previous legislative session. (Current General Fund earmarks

from all sources are shown in Table 1.) Interest earnings and the Cable and Satellite Tax are also coming in above target.

If the household deleveraging effect continues, and saving rates continue to grow, then consumer spending recovery will likely be dampened. The dampening effect is the current risk for sales tax revenues in the short term.

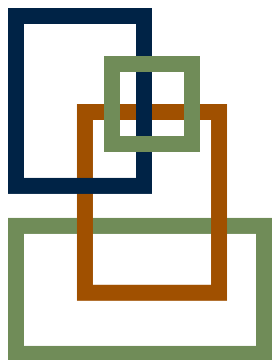
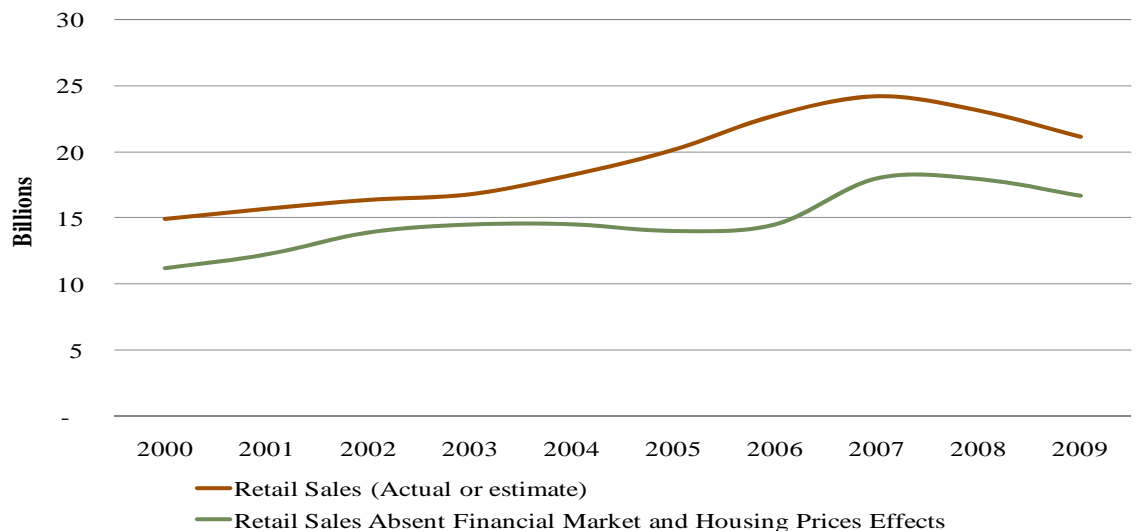
When all sources are combined the General Fund is currently on target with an expected range of +/- \$10 million.

**Sales Tax growth is no longer being created by the financial and housing markets.**

**TABLE 1: General Fund Earmarks FY 08 Prelim. FY 09 Prelim.**

<b>Dedicated Credits:</b>		
Admin. Allowance Service Charge	\$7,648,497	\$7,148,036
DNR Watershed Rehab/Cloud Seeding	650,000	650,000
DNR Plants/Animal Protect.: Sales	2,450,000	2,450,000
Water & Wastewater - DWR	580,010	528,569
<b>General Fund Restricted:</b>		
Water & Wastewater Projects	20,997,288	20,264,441
<b>Transportation Fund Restricted:</b>		
Transportation Projects	27,856,138	27,100,471
Public Transit Systems Highway	27,053,027	23,744,239
Motor Vehicle Rental Tax - restricted	4,637,252	3,447,892
Cent. Hwy Vehicle Rel. Products - 8.3%	3,094,668	154,084,775
Centennial Hwy 1/64 Sales Tax & Transfers	153,660,387	(14,995,479)
Critical Need Highway Fund	82,903,144	57,720,850
<b>State Sales &amp; Use Tax - Earmarked</b>	<b>\$331,530,411</b>	<b>\$282,143,794</b>
<b>Oil &amp; Gas Severance Tax</b>		
Permanent State Trust Fund	-	22,000,000
Navajo & Uintah Basin Revital. Funds	7,986,442	9,000,000
<b>Total Earmarks</b>	<b>339,516,853</b>	<b>313,143,794</b>

**CHART 2: Taxable Sales with Financial Markets & Housing Effects**





## EDUCATION FUND

Total wages represent the largest source of revenue to the Education Fund. As a result Income Tax continues to struggle. Currently total wages are expected to be down by 3.4 percent for CY 2009. Given the weak employment and wage outlook over the next several months, we can see Utah personal income potentially dropping 3% o 5% in calendar year 2009 . It appears that individual income tax revenue for FY2009 will decline approximately 11% from FY2008 levels.

The second largest source of Education Fund revenue, corporate profits continue to be under pressure. Business conditions now affect future revenue through a variety of factors but especially through capital losses. Of mention is the finance and insurance industry, which, up until recently accounted for a small portion of capital losses. The taxable income from this sector will likely continue to be under pressure and accrue capital losses for future years. As a result corpo-

rate taxes will continue to be a volatile source of revenue.

Part of the explanation for the state's corporate income tax performance is the structure of industries that pay the tax. Industries that account for a larger portion of corporate income tax paid in the state tend to be those industries that are under less pressure. Those that have large losses will most likely pay the minimum tax.

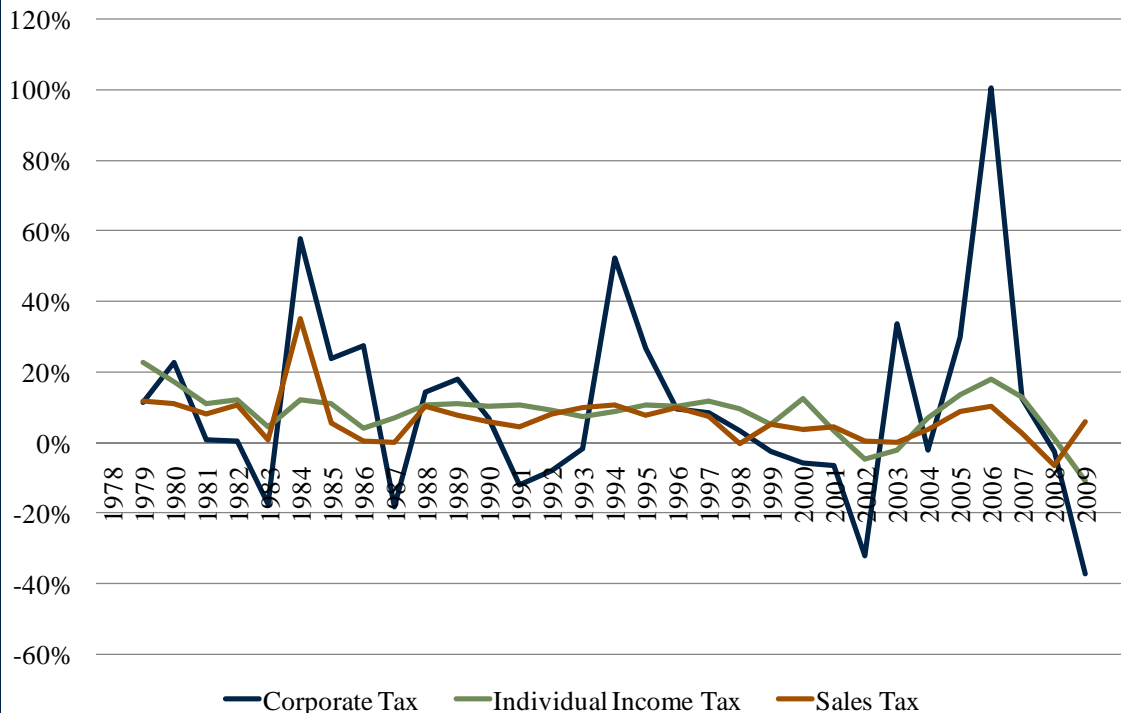
The impact of the massive capital market losses over the past 18 to 24 months will likely offset potential future capital gains for the next several years which in turn will dampen income tax and corporate franchise tax collections into the future. The volatility of the corporate tax is shown in the chart below.

When all sources are combined the Education Fund collections are expected to be within a range of +/- \$30 million. The largest risk is in the Corporate Tax.

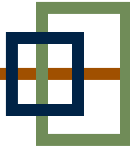
***Employment Declines and Wage Slowdown Impact Education Fund Revenues***

***Corporate Tax Collections are Below Expectations in FY 2009***

**CHART 3: Corporate Tax Volatility**



***Corporate Taxes remain particularly volatile in the short term.***



***Vehicle efficiencies have shifted the transportation fund base lower.***

In the past, speculation, exchange rates, domestic and international demand, and interest rates had mostly a transitory effect on transportation fund revenue – leaving the built-in expectation that revenue would continue to follow a business cycle pattern once these factors changed course. It appears that these historically transitory impacts have caused a structural shift – at least for the moment. Individuals have shifted to more fuel efficient vehicles – with the switch largely due to the impact speculation had on the price of oil. The structural shift does not eliminate the cycle – but rather shifts *base* transportation fund revenue lower. An initial analysis of automobile data indicates that the aggregate fuel economy of

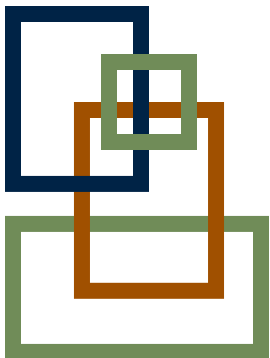
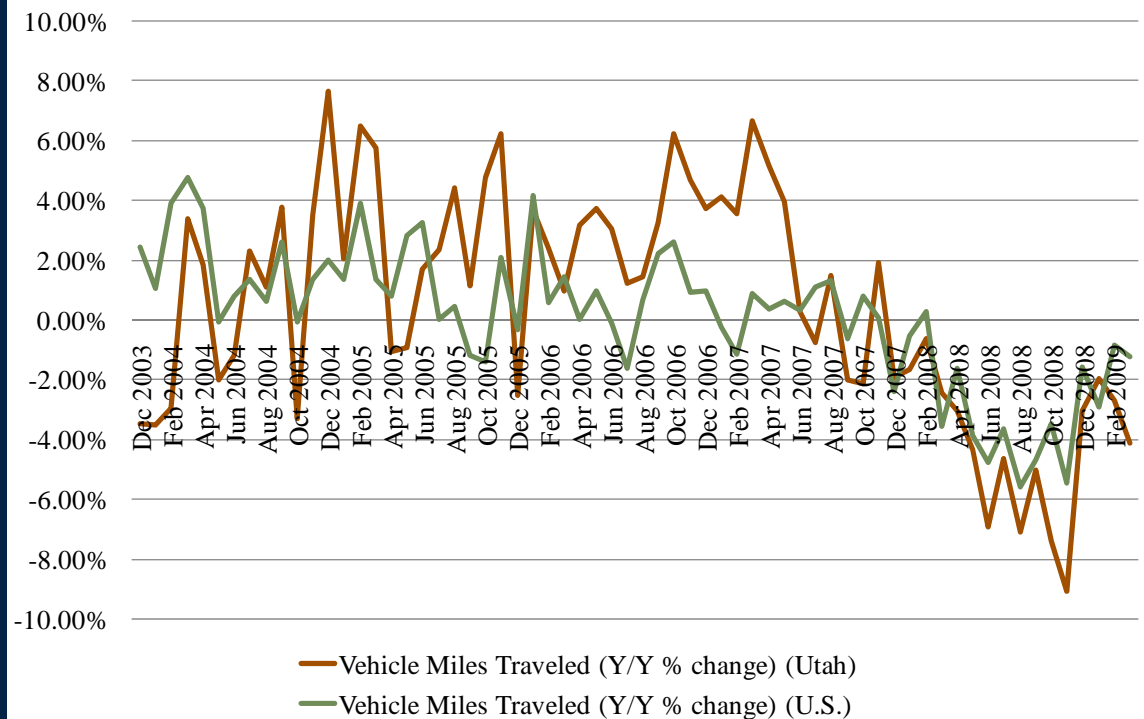
automobiles purchased in the state has increased from 24.65 mpg to 26.8 mpg (see table below). The differential aggregate increase means that the same miles can be traveled with 78.9 million fewer gallons of gasoline purchased representing \$19.8 million in fuel tax revenue.

The decrease in vehicle miles traveled cannot be entirely attributed to the price of oil and the impact of more fuel efficient vehicles. Individuals also appear to be traveling less due to other business cycle factors – such as pressure on employment and wages.

Based on collections to date Transportation Fund revenues appear to be coming in on target for FY 2009.

***Total Vehicle Miles Traveled continue to decline.***

**CHART 4: Vehicle Miles Traveled**



## PART 2: ECONOMIC INDICATORS

### WAGES & EMPLOYMENT

Unemployed individuals now represent about 2.5 percent of the population (71,000 individuals). These individuals may be unemployed because of, among other possibilities, fluctuations in the business cycle, lack of employment in a specific specialization area, or incentives offered to the unemployed. Either due to the three aforementioned factors or due to discouragement based upon the low hiring rate, about 44,800 individuals have dropped out of the labor force (thus not counted as unemployed). Because of the drop in the labor force, the unemployment rate probably does not represent the most accurate picture of the economic situation.

For the first few months of the downturn, the employment effect was only evident in the financial activities and construction sectors. Now, every sector except for natural resources, education, and government has experienced workforce reduction, ranging from a low of 1,547 to a high of 20,735.

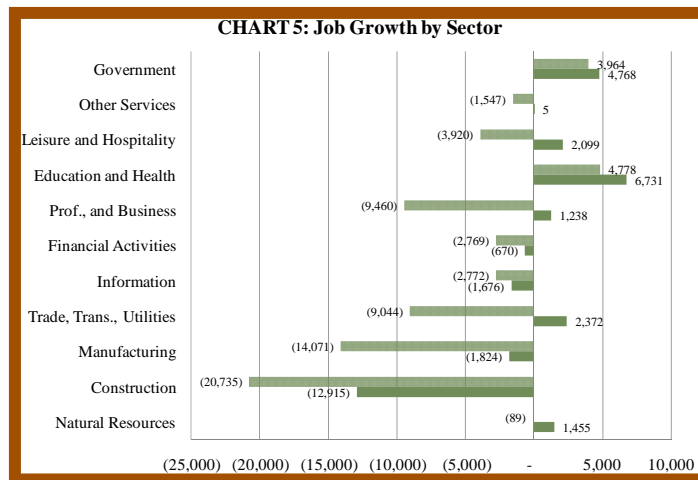
As is noted in Chart 6 – Utah has experienced negative year over year job

growth since July 2008 – and the rate of job losses has accelerated through April 2009. It is anticipated that job losses will begin to moderate throughout the second half of calendar 2009 – but that positive year over year job growth will likely not resume until late 2010.

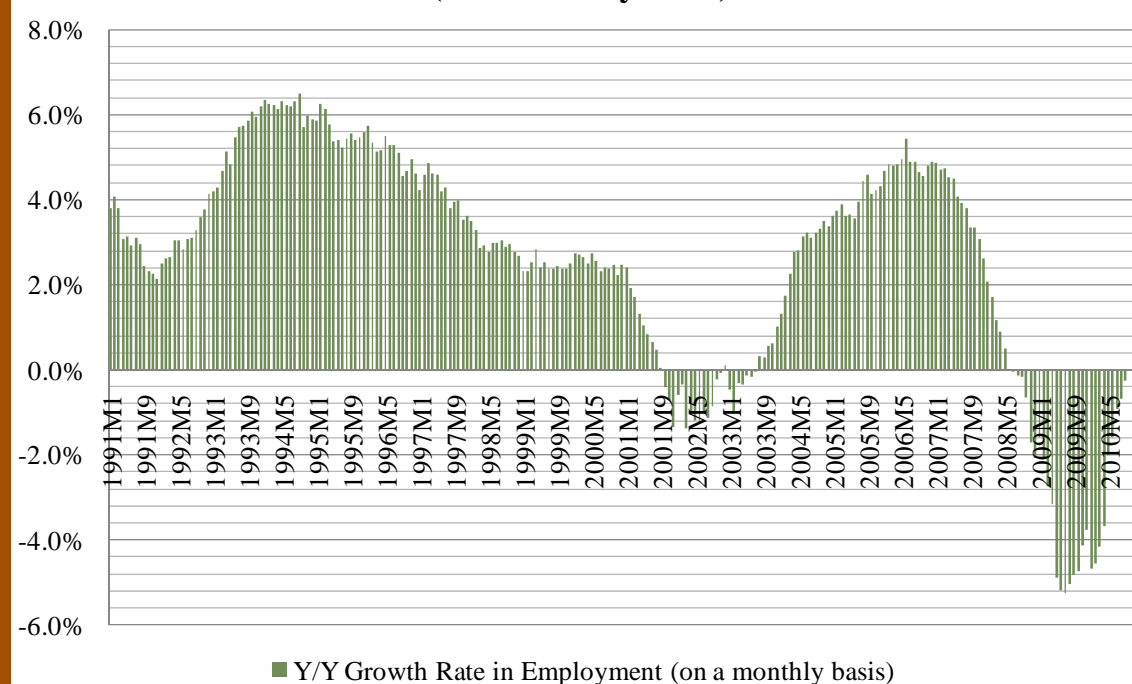
Wage growth also remains slow. Most of the gains occurring in recent quarterly reports are the result of severance payments and bonuses. Ongoing wage growth remains flat.

**Job Growth Forecast at (4.3) Percent in 2009**

**Job Growth in Utah Continues to Decelerate—Especially in the Construction & Financial Activity Sectors**



**CHART 6: Y/Y Growth Rate in Employment  
(on a monthly basis)**





## ***Federal Tax Changes Impact State Revenues.***

Both individual and institutional investors have suffered severe losses – realized and unrealized. The S&P 500 fell more than 50% from its October 2007 highs to March 2009 lows (see Chart 7). Financial sector stocks (not long ago one of the

- Temporary suspension of unemployment benefits will reduce AGI and as a result will impact individual income tax.
- Extension of bonus depreciation, carry-back of net operating losses, and the extension of small business expensing will likely impact both individual and corporate tax revenues.

The graph displays the US Consumer Price Index (CPI) over a 58-year period. The index starts at approximately 100 in 1950 and shows a consistent upward trend. There are several periods of relative stability, such as the early 1960s and mid-1970s, followed by periods of rapid inflation, notably in the late 1970s and early 1980s. The most dramatic increase occurs in the late 1990s and early 2000s, where the index rises from around 1000 to nearly 1500. A sharp decline is visible in 2008, reaching a low of approximately 700.



## CONSTRUCTION

Non-residential construction will continue its decline because of excess supply and declines in production. Non residential permit values are expected to drop from 1.9 billion to 1.4 billion in 2009.

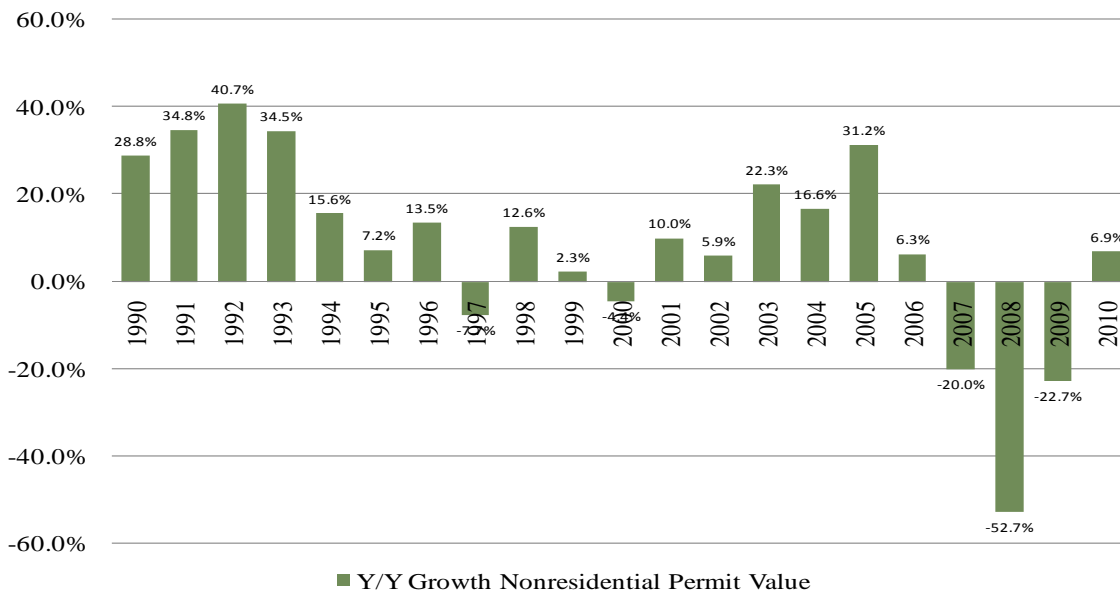
Since peaking in 2006, the rate of growth in the Utah construction sector has steadily deteriorated. By December 2007 the rate of growth fell below zero and the decline has accelerated throughout 2008 and into 2009.

Low fixed rate mortgages, combined with low short term interest rates are helping stabilize the

Utah housing market. Buyers are also taking advantage of federal and state tax credits for the purchase of moderate priced homes. Excess supply of existing homes has been reduced. However, new home construction remains constrained mainly as a result of credit restrictions still in place.

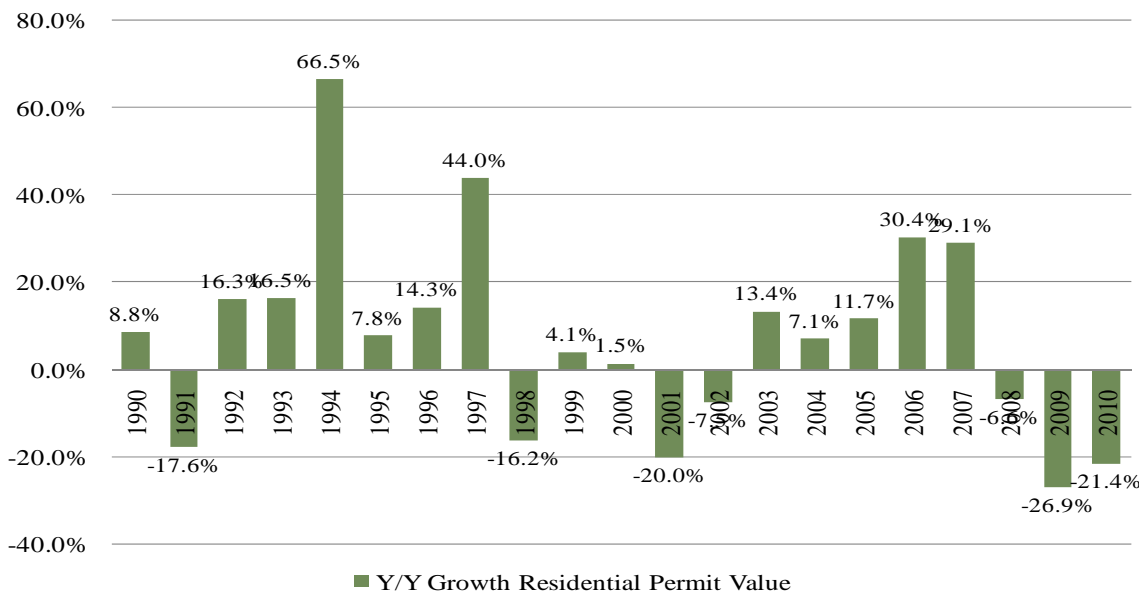
The good news is that real estate inventory is going down. Moving forward the housing market should derive strength from strong population growth and some pent up demand.

**CHART 8: Y/Y Growth Nonresidential Permit Value**



*Non-residential construction continues to decline.*

**CHART 9: Y/Y Growth Residential Permit Value**



*Utah Dwelling Unit Permits to be 8,500 in 2008—Lowest Level of Home Building Documented History*



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## REVENUE COLLECTIONS TO DATE (11 MONTHS)

Major Tax Sources (In Millions of Dollars)	FY 2008 Final	FY 2009 February Consensus (2/12/2009)	FY 2009 February Growth Rate	FY 2008 Year-to-Date (6/7/2008)	FY 2008 Year-to-Date (6/7/2009)	FY 2009 Year-to-Date Growth Rate
Sales & Use Taxes	\$1,739.38	\$1,544.19	-11.2%	\$1,616.02	\$1,448.52	-10.4%
Individual Income Tax	2,602.70	2,323.00	-10.7%	2,457.75	2,185.07	-11.1%
Corporate Franchise Tax	418.32	281.25	-32.8%	350.27	233.79	-33.3%
Beer, Cigarette & Tobacco	62.84	60.47	-3.8%	59.58	56.60	-5.0%
Insurance Premium Taxes	77.20	81.26	5.3%	76.76	77.41	0.8%
Severance Taxes	92.06	86.32	-6.2%	100.27	116.19	15.9%
<b>Total - General &amp; Education Funds</b>	<b>\$4,992.50</b>	<b>\$4,376.49</b>	<b>-12.3%</b>	<b>\$4,660.65</b>	<b>\$4,117.58</b>	<b>-11.7%</b>
Motor Fuel Tax	\$244.68	\$223.48	-8.7%	229.18	211.03	-7.9%
Special Fuel Taxes	116.92	104.57	-10.6%	107.54	94.11	-12.5%
Motor Vehicle Registration Fees	35.37	35.30	-0.2%	32.67	31.96	-2.2%
<b>Total - Transportation Fund</b>	<b>\$396.97</b>	<b>\$363.35</b>	<b>-8.5%</b>	<b>\$369.39</b>	<b>\$337.10</b>	<b>-8.7%</b>

Source: Utah State Tax Commission, TC-23 Report, June 2009.